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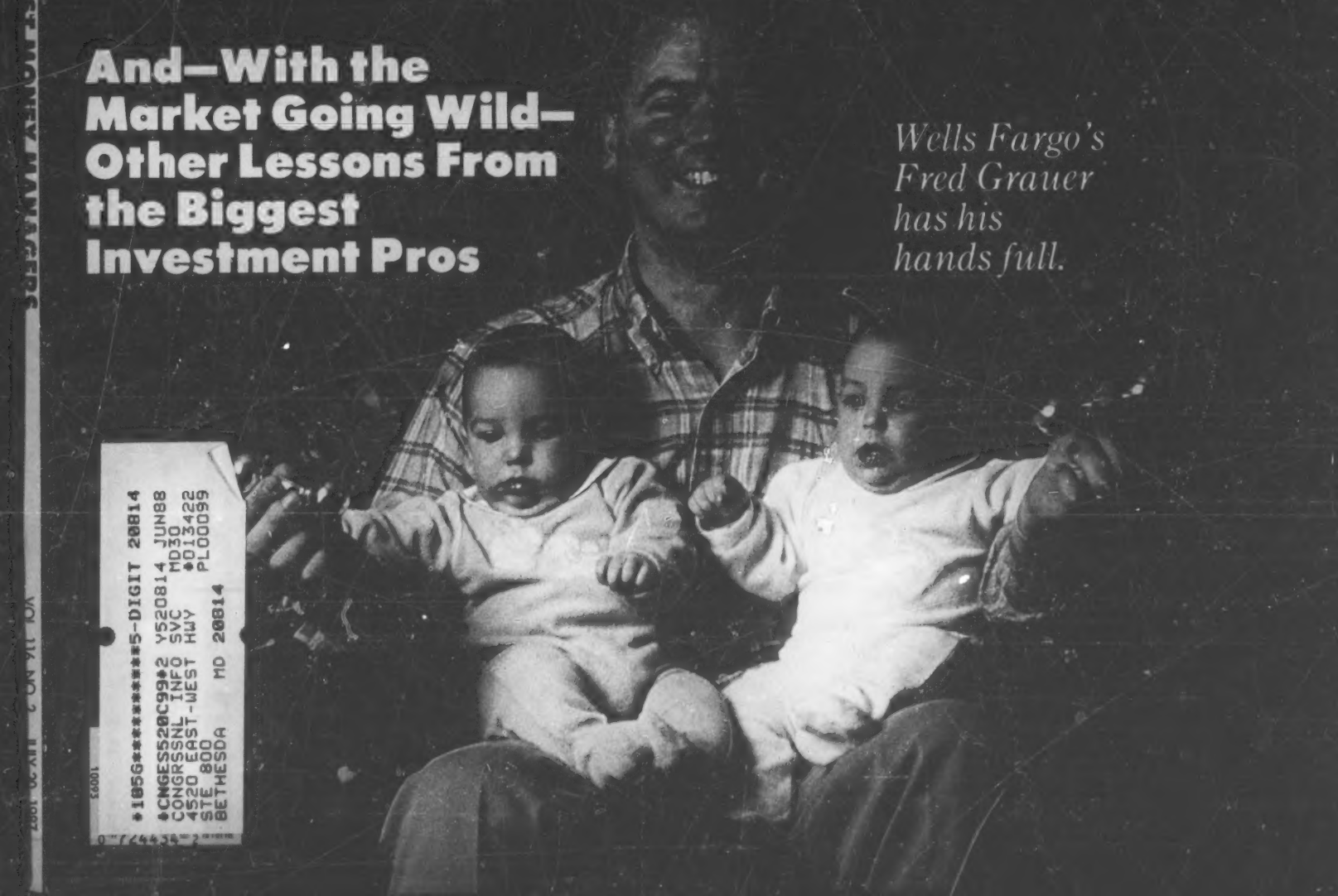
■ FORTUNE'S 18-MONTH FORECAST • CONISTON THE GIA

JULY 20, 1987

FORTUNE

HOW THIS MAN MANAGES $69 BILLION

And—With the Market Going Wild—Other Lessons From the Biggest Investment Pros



Wells Fargo's Fred Grauer has his hands full.

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George Steinmetz photographed Frederick Grauer, president of Wells Fargo Investment Advisors, with twin sons David, left, and Andrew. The story of how the biggest money managers pick their investments begins on page 28.

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free and should receive hefty royalties. Investors in Gulf & Pacific, including Tony Guccione, son of *Penthouse* publisher Bob, put up $4 million.

Kolb has targeted a group of mostly Muslim countries in the Middle East and Southeast Asia, where surveys show more than 90% of consumers know and respect Ali. The milk powder market in those regions totals about $2 billion a year at retail; as much as 70% of it belongs to **Nestlé**'s Nido brand. After months of test marketing in the United Arab Emirates, Gulf & Pacific claims to have a 12% share, thanks to a massive promotion that included a ten-day visit by the man with his face on the can.

Working with such a famous Muslim confers certain advantages. When Kolb and Ali visited Saudi Arabia recently, they came as guests of King Fahd and invited business contacts to drop by the palace where they lodged. "All of them showed up on the schedule we suggested," says Kolb, who hooked up with the powerful distributor he wanted. Primo is slated to hit the Saudi market in about six months.

Debt watch (cont'd)

■ Big banks are still taking their medicine, setting up new reserves against bad loans to the Third World, mainly Latin America. In recent weeks 15 of the 20 banks with the largest exposure have raised reserves by a total of nearly $13 billion, resulting in a combined second-quarter loss of $11 billion.

Only the five big banks listed above still hesitate; all of them are reviewing the situation. The figures for new reserves needed were calculated by Keefe Bruyette & Woods, a brokerage firm, and they assume that every bank follows the leader, **Citicorp**, which has covered 3.68% of its entire loan portfolio. Some banks that have not swallowed their dose are likely to do so by July, when they announce results for the second quarter. **J.P. Morgan**'s reticence is no sign of weakness. Before Citi set the dominoes falling by announcing a new reserve of $3 billion last May, Morgan had already taken hefty reserves. Finishing the job will hurt its earnings less than most.

THE NEXT BULLET BITERS?

BANK	LATIN AMERICAN LOANS (billions)	NEW RESERVE NEEDED (millions)	ESTIMATED 1987 EARNINGS* (millions)
J.P. Morgan	$4.6	$375	$730
Wells Fargo	$1.6	$580	($16)
Irving Trust	$1.5	$280	($40)
First RepublicBank	$1.2	$220	($80)
Bank of New York	$0.7	$310	$0

SOURCE: KEEFE BRUYETTE & WOODS
*After adding new reserves.

Who wants to start another pro league?

■ Plenty of people, apparently. An indoor lacrosse league premiered in January. The Arena Football League, which plays on 50-yard fields in indoor air-conditioned stadiums, kicked off in June. Come September, a basketball league for short people, the International Basketball Association, will stage games in which all the dribblers and jump-shot artists must be 6 feet 4 inches or under.

These offbeat ventures are run by veteran promoters wary of the overblown ambitions that have scuttled other new leagues. They want team owners who will treat their franchises as serious businesses, not tax write-offs for bored millionaires. Says Bob Cousy, former Boston Celtics great and director of operations for the IBA: "We have set things up to minimize interference by owners." The indoor lacrosse league is willing to sell franchises only on special terms. Russ Cline, the league's cofounder, explains: "We would do it like McDonald's. You could buy the franchise but you couldn't change the marketing or alter our financial controls." Rosters and salaries in these upstart sports are austere; the highest-paid Arena football player gets $5,000 for the summer season, and perhaps $50,000 next year, vs. the $1.5 million that the short-lived U.S. Football League offered its top players. The new leagues are fielding only a handful of teams, most located close to one another to keep a lid on travel costs. Breakeven points are low, about 3,000 to 7,000 spectators a game.

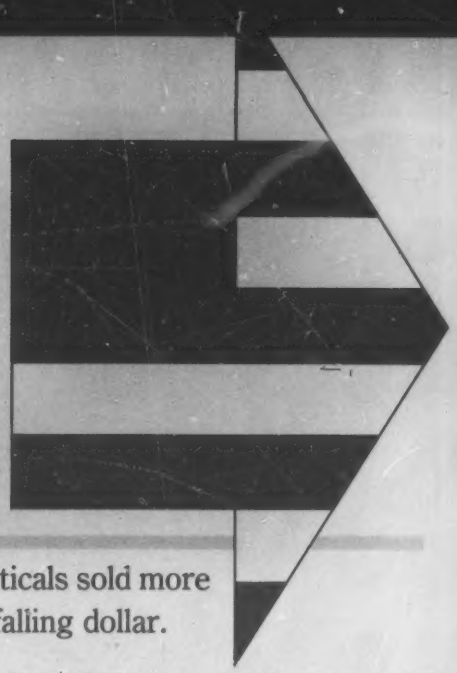
Thinking small seems to work. Arena football drew more than 10,000 fans to each of its first two games, one of them televised by ESPN, the cable network, which paid $1 million for the privilege. Cameras at the game lingered on a 13½-foot-long, unmanned miniblimp emblazoned with the logo of **Hardee's**, a fast-food chain that has paid $500,000 to become the sport's main sponsor.

Fiscal fitness is the credo these Arena football players will live by.

What price friendship?

■ After making a hostile bid of $45 a share for **JWT Group**, Martin Sorrell, chief executive of London-based **WPP Group PLC**, a marketing services company, offered $5.50 more to turn the merger into a friendly one. His goal: to keep the clients and creative talent of J. Walter Thompson, JWT's main operation and the fourth-largest ad agency in the U.S., from leaving in a snit. JWT Chairman Don Johnston felt friendship should come dearer. He bid Sorrell up to $55.50 before shaking hands. The camaraderie must be worth a lot: For $566 million, Sorrell is buying an agency with margins

AMERICA'S LEADING EXPORTERS



Makers of electronic products, planes, chemicals, and pharmaceuticals sold more abroad last year—due in part to the long-awaited effects of the falling dollar.

IF AMERICA is going to wipe out its monster trade deficit, these companies will have to lead the way—and last year they began to. The falling dollar took its own sweet time helping them out, but in the third quarter its effects finally kicked in. Result: Exports by the top 50 rose 4%, to $73 billion. Total U.S. exports rose only 2%, to $217 billion.

Manufactured goods did best. Led by electronics, aircraft, chemicals, and pharmaceuticals, they increased 5%. Agricultural exports did worst, down 10% from already depressed 1985 levels.

General Motors was America's champion exporter as measured by FORTUNE for the fifth straight year, with $8.4 billion in overseas sales. But Ford gained ground on its archrival. Partly because of improved sales to Canada of Taurus and Sable, two Ford models made only in the U.S., Ford's exports rose while GM's declined. GM's lead shrank by almost half.

Aerospace companies achieved some of the biggest gains, though one suffered the worst decline on the list. Strong sales of jet engines and avionics lifted Allied-Signal's exports a spectacular 119%. The company also got a boost from an earthbound source, its 1985 acquisition of Signal Cos. The world's biggest exporter of automobile turbochargers, Signal supplies Saab, Fiat, Volvo, and Nissan, among others. Boeing's exports rose 25% in 1986, and the Seattle company should do even better in coming years. British Airways placed a $4-billion order for 16 747s plus options for more—the biggest jetliner deal in Boeing's history—for delivery from 1989 to 1994. Northrop was the big loser. Its contract to train and support the Royal Saudi Air Force ran out, and production of the company's F-5 fighter slowed. Northrop's exports dropped by $374 million, or 38%.

Archer Daniels Midland, the Decatur, Illinois, food processor that was clobbered in export markets in 1985, bounced back to become one of the biggest gainers on the list. Despite the fall in U.S. agriculture exports overall, ADM's surged 53%. "We restructured ourselves to improve exports," says Douglas Schmalz, the company's chief financial officer. Among other moves, ADM won access to many new customers by acquiring 45% of Alfred C. Toepfer, a West German agricultural trading company with offices in 18 countries.

Of seven companies in FORTUNE's rankings of computer and office equipment makers, only Prime was up, by 13%. Prime gets almost half its sales from exports—the highest percentage of any company listed. "We serve multinational companies," says Gale Aguilar, Prime's vice president for corporate development and strategy. "Having to sell to the international market helps us see where the domestic market is heading."

IBM's exports dropped 12%—and the company was delighted. Subsidiaries overseas became increasingly self-sufficient and imported fewer U.S.-made components. Wang and Tektronix, which ranked 48th and 50th respectively on last year's list, dropped off this year. Like IBM, Wang attributes its decline to subsidiaries selling more of their own production.

Six out of eight electronics companies scored export increases, with Raytheon (No. 20) turning in the best performance. Its 23% gain came from sales of the company's Patriot air defense system to West Germany and the Netherlands. Intel, a newcomer to the list (No. 46), gained 16% because of strong demand overseas for its model 286 and 386 microprocessors. Honeywell (No. 43) suffered the second-biggest drop of any company on the list, 35%, following the sale of computer operations that had accounted for most of its exports.

STRONG EXPORTS of copiers and photographic equipment helped Kodak (No. 11 last year) climb back into the top ten. The company reformulated its Kodacolor film to compete better against films by foreign rivals Agfa and Fuji. Kodacolor sales in Japan were up.

Foreign demand for U.S. forest products grew with the dollar's decline, helping exports by International Paper and Weyerhaeuser gain 21% and 17.5%, respectively. By volume, pulp exports overall climbed 15%. Demand is expected to remain strong throughout 1987.

Philip Morris, whose Lark and Parliament brands have 70% of Japan's imported cigarette market, raised exports 18%. Japan lowered barriers against U.S. cigarettes this year, but the recent discovery of herbicides in a shipment of R.J. Reynolds cigarettes has clouded the prospect of Japan easing restrictions any further.

Newcomers Merck (No. 47) and Lilly (No. 45) are the first drug companies ever to appear in FORTUNE's top 50. The industry's exports shot up to $3.1 billion in 1986 on the strength of improved sales worldwide. Drugmakers are expected to do even better in 1987, thanks to new laws that permit exports of products not yet approved for domestic sale.

—Alan Farnham

THE FORTUNE DIRECTORY OF THE BIGGEST U.S. INDUSTRIAL EXPORTERS

RANK 1986	RANK 1985	COMPANY	PRODUCTS	EXPORT SALES $ THOUSANDS	EXPORT SALES PERCENT CHANGE 1985-86	TOTAL SALES $ THOUSANDS	TOTAL SALES FORTUNE 500 RANK	EXPORTS AS PERCENT OF SALES PERCENT	EXPORTS AS PERCENT OF SALES RANK
1	1	**General Motors** (Detroit)	Motor vehicles & parts, locomotives	8,365,100	−5.93	102,813,700	1	8.14	37
2	3	**Boeing** (Seattle)	Commercial & military aircraft	7,330,000	25.06	16,341,000	16	44.86	2
3	2	**Ford Motor** (Dearborn, Mich.)	Motor vehicles & parts	7,244,000	7.37	62,715,800	3	11.55	26
4	4	**General Electric** (Fairfield, Conn.)	Aircraft engines, medical systems	4,348,000	8.16	35,211,000	6	12.35	24
5	5	**International Business Machines** (Armonk, N.Y.)	Computers & related products	3,058,000	−12.30	51,250,000	4	5.97	45
6	6	**E.I. du Pont de Nemours** (Wilmington, Del.)	Specialty chemicals & energy products	2,960,000	14.95	27,148,000	9	10.90	28
7	6	**Chrysler** (Highland Park, Mich.)	Motor vehicles & parts	2,810,800	−5.61	22,513,500	11	12.48	23
8	7	**McDonnell Douglas** (St. Louis)	Aerospace & information systems	2,804,800	5.12	12,660,600	23	22.15	5
9	9	**United Technologies** (Hartford)	Jet engines, helicopters, cooling equip.	2,126,043	−0.05	15,669,157	17	13.57	20
10	11	**Eastman Kodak** (Rochester, N.Y.)	Photographic equipment & supplies	2,044,000	9.72	11,550,000	26	17.70	13
11	10	**Caterpillar** (Peoria, Ill.)	Heavy machinery, engines & turbines	2,016,000	4.56	7,321,000	47	27.54	4
12	12	**Hewlett-Packard** (Palo Alto, Calif.)	Computers, electronic equipment	1,405,000	−1.33	7,102,000	51	19.78	7
13	31	**Allied-Signal** (Morristown, N.J.)	Aircraft & vehicle parts, chemicals	1,358,000	118.68	11,794,000	25	11.51	27
14	13	**Digital Equipment** (Maynard, Mass.)	Computers & related products	1,354,339	−1.40	7,590,357	44	17.84	11
15	14	**Philip Morris** (New York)	Tobacco, beverages, food products	1,300,000	18.18	20,681,000	12	6.29	44
16	18	**Occidental Petroleum** (Los Angeles)	Agricultural products, coal	1,092,000	12.93	15,344,100	19	7.12	41
17	16	**Union Carbide** (Danbury, Conn.)	Chemicals, glasses, carbon products	1,091,000	2.44	7,828,000	42	13.94	18
18	15	**Westinghouse Electric** (Pittsburgh)	Generating equipment, defense systems	1,079,000	0.84	10,731,000	28	10.05	33
19	19	**Motorola** (Schaumburg, Ill.)	Semiconductors, radio equipment	1,061,000	10.87	5,888,000	60	18.02	10
20	24	**Raytheon** (Lexington, Mass.)	Electronic defense systems, aircraft	1,056,000	22.65	7,307,952	48	14.45	16
21	30	**Archer Daniels Midland** (Decatur, Ill.)	Protein meals, vegetable oils, flour	1,013,835	52.82	5,335,975	67	19.00	8
22	23	**General Dynamics** (St. Louis)	Tanks, aircraft, missiles, gun systems	1,003,000	14.41	9,211,400	36	10.89	29
23	25	**Weyerhaeuser** (Tacoma)	Wood products, logs, lumber	932,000	17.53	5,652,029	62	16.49	14
24	20	**Dow Chemical** (Midland, Mich.)	Chemicals, plastics, polymer products	904,000	−0.44	11,113,000	27	8.13	38
25	22	**Monsanto** (St. Louis)	Herbicides, chemicals, polymer products	873,000	−3.22	6,879,000	55	12.69	22
26	28	**Textron** (Providence)	Aerospace & consumer products	786,000	9.62	5,226,300	69	15.04	15
27	29	**Lockheed** (Calabasas, Calif.)	Aircraft	784,000	13.13	10,273,000	30	7.63	40
28	21	**Exxon** (New York)	Petroleum, chemicals	771,000	−14.71	69,888,000	2	1.10	50
29	37	**Unisys** (Detroit)	Computers & related products	749,400	−28.80	7,432,400	46	10.08	32
30	27	**Dresser Industries** (Dallas)	Pumps & energy-related equipment	649,500	−10.94	3,661,300	105	17.74	12
31	26	**ITT** (New York)	Logs, cellulose pulp	630,000	−15.21	7,895,540	41	7.98	39
32	17	**Northrop** (Los Angeles)	Aircraft & aircraft services	599,300	−38.44	5,608,400	64	10.69	30
33	36	**Minnesota Mining & Manufacturing** (St. Paul)	Industrial, electronic & health products	598,000	6.79	8,602,000	39	6.95	43
34	35	**FMC** (Chicago)	Defense equipment, chemicals	594,363	0.87	3,002,746	131	19.79	6
35	33	**Celanese** (New York)	Fibers, chemical & specialty products	542,000	−9.06	2,891,000	134	18.75	9
36	44	**International Paper** (New York)	Pulp, paper & wood products	533,000	21.14	5,501,000	66	9.69	35
37	42	**Rockwell International** (Pittsburgh)	Electronic equipment, automotive parts	493,000	10.79	12,295,700	24	4.01	48
38	39	**Deere** (Moline, Ill.)	Farm & industrial equipment	484,000	−7.63	3,516,289	111	13.76	19
39	41	**Amoco** (Chicago)	Chemicals, plastics	425,000	−10.34	18,281,000	13	2.32	49
40	40	**Phillips Petroleum** (Bartlesville, Okla.)	Liquefied natural gas, chemicals, plastics	415,000	−18.47	9,786,000	31	4.24	47
41	49	**Prime Computer** (Natick, Mass.)	Computers & related products	406,316	13.41	860,173	338	47.24	1
42	45	**Control Data** (Minneapolis)	Computers & related products	389,400	−8.66	3,346,700	119	11.64	25
43	34	**Honeywell** (Minneapolis)	Electronic components, control systems	384,000	−34.92	7,086,700	52	5.42	46
44	46	**Ingersoll-Rand** (Woodcliff Lake, N.J.)	Drills, compressors, pumps, tools	372,800	−9.97	2,799,481	139	13.32	21
45	•	**Eli Lilly** (Indianapolis)	Drugs, cosmetics & agricultural products	369,600	13.72	3,720,400	101	9.93	34
46	•	**Intel** (Santa Clara, Calif.)	Semiconductor components & products	365,994	15.97	1,265,011	256	28.93	3
47	•	**Merck** (Rahway, N.J.)	Drugs & specialty chemicals	363,900	14.72	4,128,900	91	8.81	36
48	•	**Combustion Engineering** (Stamford, Conn.)	Steam generators & power plants	357,416	13.09	2,551,469	151	14.01	17
49	•	**Cooper Industries** (Houston)	Gas compressors, electrical equipment	347,172	11.21	3,433,296	116	10.11	31
50	•	**NCR** (Dayton, Ohio)	Computers & related products	345,956	−0.02	4,881,641	75	7.09	42
		TOTALS		73,386,036		719,630,216			